TENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1985-86)

(EIGHTH LOK SABHA)

HOTEL CORPORATION OF INDIA LTD (MINISTRY OF TRANSPORT, DEPARTMENT OF CIVIL AVIATION)

Presented to Lok Sabha on 30 April, 1986
Laid in Rajya Sabha on 30 April, 1986

LOK SABHA SECRETARIAT
NEW DELHI

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1985-86)

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2. Shri S. S. Chawla—*Chief Financial Committee Officer*
3. Shri G. S. Bhasin—*Senior Financial Committee Officer*

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* Ceased to be a member consequent upon his retirement from Rajya Sabha on 2 April, 1986.

** Ceased to be a member consequent upon his retirement from Rajya Sabha on 15 April, 1986.

COMPOSITION OF STUDY GROUP I OF THE COMMITTEE ON PUBLIC UNDERTAKINGS ON AIR INDIA INCLUDNG HOTEL CORPORATION OF INDIA, INDIAN DAIRY CORPN., EASTERN COALFIELDS LTD., INDIAN DRUGS AND PHARMACEUTICALS LTD., MORPHULANI (ASSAM) TEA CO. LTD

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3. Miss Saroj Khaparde

4. Dr. Sankta Prasad

5. Shri Santosh Kumar Sahu

*Ceased to be a member consequent upon his retirement from Rajya Sabha on 2 April, 1986.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Tenth Report on Hotel Corporation of India.

2. The Committee took evidence of the representatives of Hotel Corporation of India on 13 September, 1985 and of the Ministry of Transport (Department of Civil Aviation) on 19 March, 1986.

3. The Committee considered and adopted the Report at their sitting held on 21 April, 1986.

4. The Committee wish to express their thanks to the Ministry of Transport (Department of Civil Aviation) and Hotel Corporation of India for placing before them the material and information they wanted in connection with the examination of Hotel Corporation of India. They also wish to thank in particular the representatives of the Department of Civil Aviation and the Hotel Corporation of India who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

NEW DELHI;
April 28, 1986
Vaisakha 8, 1908 (*S*)

K. RAMAMURTHY
Chairman,
Committee on Public Undertakings

PART I

1. ROLE OF HCI

(i) *Objectives and Obligations*

The Hotel Corporation of India Limited was registered as a wholly owned subsidiary of Air India in 1971 under the Companies Act, 1956, with the object of carrying on the business of owning Hotels, Motels, Flight Kitchens, etc. after the Air Corporations Act, 1953 had been amended to provide for Air India to establish wholly owned companies. The decision for Air India to go into the Hotel business was at that time taken in keeping with the trend in the airline industry, whereby more and more airlines were entering into hotel business, in order to offer complete package to their clientele by having control over hotel accommodation wherever they had large requirements for hotel accommodation.

1.2 The Company is having 5 major operating units *viz*. Centaur Hotel Bombay Airport, Centaur Hotel Delhi Airport, Centaur Lake View Hotel, Srinagar, Chefair Flight Kitchen, Delhi and Chefair Fligth Kitchen, Bombay. In addition to the units already in operation, the company is constructing a hotel at the Juhu Beach, Bombay.

1.3 The Company also operates Restaurants and Snacks Bars at the International and Domestic Airport Terminals at Bombay and Delhi. The Company also operates the Restaurant|Cafeteria and pantry services at the Air India Building, Nariman Point, Bombay and Canteens at Himalaya House, Hansalaya and Palam Airport at Delhi for Air India staff on no profit/no loss basis.

1.4 The Company in collaboration with M/s. Hokke Club of Japan has formed in 1982 a new subsidiary company *viz*. Indo Hokke Hotels Ltd. for construction of hotels at Budhist Centres of Rajgir and Kushinagar. The Rajgir Hotel was opened in November, 1984. The construction of Kushinagar Hotel project was, however, deferred by the Board of HCI in November, 1984. HCI holds 80 per cent of the equity capital of Indo Hokke Hotels Ltd., while the balance 20 per cent is held by M/s. Hokke Club of Japan.

1.5 The Company also entered into a joint venture with Tea Board of India and formed a new company *viz*. India Tea and Restaurants Ltd. In accordance with the recent decision taken by the Ministry of Tourism and Civil Aviation and Ministry of Commerce,

the investment by HCI in India Tea and Restaurants Ltd. will be increased from 49 per cent to 51 per cent initially and at the same time, the investment of the Tea Board will be reduced from 51 per cent to 49 per cent whereby India Tea and Restaurants Ltd. would become a subsidiary of Hotel Corporation of India Ltd. and would be under the administrative control of the Ministry of Tourism and Civil Aviation instead of Ministry of Commerce. The first restaurant of the Company *viz.* Mayur Restaurant in Sydney was opened on October 20, 1982 and the second Restaurant of the Company *viz.* Mayur Restaurant at London was commissioned from October 23, 1984.

1.6 During the oral evidence, the Committee desired to know the objectives of HCI and enquired whether these objectives have been spelt out on the lines indicated by BPE in 1970. The Managing Director, HCI stated:

> "Basically the objective of Hotel Corporation of India by virtue of being the wholly owned subsidiary of Air India, is to assist Air India to service Air India's passengers and crew by providing hotel infrastructure. This is the basic and the main objective of Hotel Corporation of India. We have also formulated the financial objectives. In formulating the financial objectives, I must be frank and confess that we have not quantified them. We have defined them qualitatively. Basically, in terms of financial objectives, one is the payment of interest and the dividend on loan and equity capital, second is the creation of reserves. The third is the return on investment or capital employed and fourth is the profitability.
>
> There is one objective related to promotion of international tourism. The focus is not on promotion of international tourism but the focus is on earing foreign exchange."

1.7 Taking into account the fact that BPE issued guidelines as early as in 1970 regarding formulation of micro objectives in public enterprises, the Committee wanted to know when these objectives were formulated by HCI. In a note furnished after evidence, HCI stated that "the micro objectives were finalised towards the end of 1984 and placed before the Board at its 89th Board Meeting held on March 28, 1985. After the micro objectives were approved by the Board, the same were forwarded to the administrative ministry on April 3, 1985.....The first reference in regard to framing of micro objectives was received by us in 1983. It is possible that earlier references in regard to framing of micro

objectives were addressed to our parent organisation, namely Air India, but in so far as our Corporation is concerned, action was initiated only after the 1983 communication from the Bureau of Public Enterprises."

1.8 Regarding quantification of objectives, the Company stated in a post evidence note that the quantification of objectives, namely, return on capital, profitability, creation of reserves, pricing policy, etc. had been done by the management internally for the next few years.

(ii) Role of HCI

1.9 The Committee noted that HCI was created as a subsidiary of Air India primarily to assist Air India in meeting its hotel accommodation needs for its crew, transit and other passengers. The Committee, however, found that HCI has over-stretched its role to set up hotels at places other than Airports, for instance at Srinagar and Juhu Beach and its subsidiary Indo-Hooke Hotels Ltd. has undertaken construction of Hotels at Buddhist Centres in India. Asked to explain the reasons for HCI entering into the realm of ITDC by putting up hotels at Srinagar and Juhu, HCI stated in a post evidence reply that HCI in fact did not enter into the realm of ITDC by putting up hotels at Srinagar and Juhu, since ITDC did not have any Unit in Srinagar and Bombay, the Juhu Beach Hotel being regarded as an extension of the Centaur Hotel at Bombay Airport, considering Air India's large requirements for Hotel accommodation in Bombay and the Srinagar Hotel being a part of the Convention Centre, the conventions being promoted by Air India through their offices abroad.

1.10 The Committee pointed out that one of the objectives of HCI was to promote international tourism to India and to improve the nation's foreign exchange and enquired whether this objective did not overlap with the objective of ITDC. The Managing Director, HCI replied in evidence:

> "With the management there is no overlapping. The hon. Member would bear with me that I do not want to answer the question in any abstract fashion but concretely with reference to the properties we have today. What are the properties of the HCI that we have to take? We have the Centaur Hotel near Bombay Airport which came up in 1975. The ITDC has no property in Bombay. A large number of rooms in the hotel is being used by the Air India. Obviously, this hotel caters to the needs of Air India. Now, we are constructing another hotel at

Bombay at Juhu Beach which would be the extension of our existing hotel and shall also cater to the needs of Air India. How? Because Air India needs in Bombay at least 400 or more rooms per day. I have with me the actual number. This can be given. Air India in Bombay utilises 400 rooms per day. The new hotel will not only cater to suit the needs of Air India, but also to others. There again, the ITDC has no hotel; there is no duplication and there is no overlapping."

1.11 The Committee further enquired whether according to the role assigned to HCI, HCI should not confine its activities to the construction of airport hotels only and that too at places where Air India felt the need for such facilities for its crews and lay over passengers. The Managing Director, HCI replied in evidence:

"This question has been the subject of discussion of various empowered Committees of the Government of India. Perhaps, I cannot do better than to read out from the minutes of the meeting of this Committee held on 20th June 1980. That would indicate what their findings were. This Committee was chaired by the then secretary of Tourism & Civil Aviation."

1.12 The following is the extract of Record Note of the meeting held by Secretary, Tourism & Civil Aviation on 20.6.1980 to discuss the "Respective Roles of India Tourism Development Corporation and Hotel Corporation of India":—

"Secretary opened the meeting by explaining that the purpose of the meeting was to demarcate and properly delineate once for all, the areas and activity and operations of ITDC and HCI the two public sector undertakings presently engaged in the construction and operation of hotels in the country. He said that the basic idea was to ensure that there was no overlapping in their respective roles which could lead to duplication of efforts and competition of an avoidable nature between these two undertakings... In this context, he remarked that HCI should normally confine its activities to the construction of airport hotels only and that too at places where Air India felt the need for such facilities for its crew and its lay over passengers. He clarified that although HCI hotel project at Juhu (Bombay) and Srinagar did not satisfy this criteria, it was

not his intention to suggest that the decisions already taken in regard to those projects should be revised at this stage....."

1.13 The following decisions were taken in the meeting:

(i) In India, HCI will hereafter set up only airport hotels at places where the need for providing this facility at the airport for Air India crew and its transit passengers is established.

(ii) HCI will continue to operate Centaur Hotel, Bombay and will also implement its hotel projects at Juhu (Bombay) and Srinagar. The ITDC will continue to own and operate the Airport Ashok Hotel at Calcutta and confirmation of the earlier decision to allot the hotel site at Bombay airport to ITDC will be sought from the Minister..

(iii) As and when the need arises, hotel at Delhi airport will be set up by HCI subject to endorsement by the Department of Tourism of this requirement.

(iv) Hotel projects to be set up in collaboration with Hokke Club of Japan at Kushinagar and Rajgir, will be taken up by ITDC subject to the condition that Hokke Club has no objection to the substitution of HCI by ITDC.

(v) Overseas, where Air India operates and a hotel is needed primarily for Air India's own crew passengers it will be set up by HCI and at other places where a hotel is to be set up as a business proposition, by ITDC.

(vi) Air India through HCI, will be primarily responsible for catering for international flights of Air India, and other foreign carriers.

(vii) The ITDC will provide the catering requirements of IAC flights and for such international flights of other airlines as cannot be served by Air India.

(viii) ITDC will be given a plot at Palam airport for a flight kitchen.

(ix) The decision on the other public sector hotel at Bombay airport would be communicated separately."

1.14 On August 5, 1982, the Ministry of Tourism & Civil Aviation issued a letter forwarding a copy of Secretary's note dated 30-7-1982 which is reproduced below.

"H.M. felt that ITDC and HCI should have clearcut responsibilities in regard to their activities and had indicated the following guidelines:

1. The ITDC should concentrate on developing infrastructure in the shape of hotels|motels|forest lodges|tourist centres etc. within the country by itself through the State Tourism Development Corporation in collaboration with them through private sector etc.;

2. That the Hotel Corporation of India should concentrate on building hotels at international airports in India for the simple reason that HCI is a subsidiary of the Air India;

3. By the same token, the HCI should take up all collaboration agreements with foreign countries;

4. There should be a proper link-up between the HCI and the ITDC in regard to sending tourists visiting the HCI's international hotels to India, to occupy ITDC hotels.

5. By the same token HM had agreed that HCI should build an Airport Hotel at Madras and they should consider taking over the Airport Hotel at Calcutta;

6. HM had agreed that the Juhu Beach Hotel should be treated as a part of the Santacruz Centaur Hotel; and

7. The Hokke Club collaboration arrangements are a special arrangement for soliciting international traffic through Air India and the entire chain of Hokke Club hotels should remain with HCI.

Keeping all these factors in mind, I felt that it would be appropriate if HCI take up the construction of hotels at Algeria instead of ITDC. ITDC's hands are full in a number of senses and they should concentrate on consolidation, improvement of services etc.

1.15 HCI stated in a note furnished after evidence that after the role of HCI had been spelt out by the Ministry (in July 1982) HCI had not undertaken any project in contravention of the spelt out objectives|role.

1.16 The Ministry of Tourism & Civil Aviation directed HCI in August, 1982 to discuss with ENEMA (ESTABLISHMENT NATIONAL POUR L'EXPLOITATION METEROLOGIQUE ET AERONAUTIQUE—the Algerian Civil Aviation Authority) the construction of a large hotel next to the Algiers International Airport. Accordingly, the concerned HCI officers, together with the Consultants, visited Algiers to discuss the scope of work and other related matters with ENEMA. The price offer was finalised in accordance with the guidelines of the HCI Board and Exim Bank in early January 1983. It was decided that it will not be advisable for HCI to make a lump sum price offer as it had no previous experience of constructing projects on a turnkey basis and further that efforts made to prevail upon ENEMA to award the contract to HCI on a cost plus basis, which would be approx. 10 per cent of the total cost. In May 1983, ENEMA, however, finally conveyed their non-acceptance of the cost plus formula, it was decided by the Ministry that HCI should not participate in the project.

1.17 Enquired about HCI's reaction to the suggestion of merger of HCI with ITDC to avoid unnecessary competition within the public sector, HCI stated in a post evidence note that "there is no competition between HCI and ITDC in so far as the present properties are concerned, as ITDC has no Hotels in Srinagar and Bombay, where HCI has its Units and in so far as the Centaur Hotel at Delhi is concerned, the Hotel caters to a completely different type of traffic than that catered to by ITDC in town. The Airport Hotel basically caters to the requirements of transit passengers and lay-over passengers who do stay near the Airport and not in town Hotels.

1.18 In so far as the question of merger of HCI and ITDC is concerned, since the two Corporations were established with different objectives viz. HCI having established for construction of Hotels, considering requirements of Air-India not only for their crew and transit passengers, but also for promotion of tourist traffic to certain destination points and ITDC having been established for promotion of tourism to India in general and the holes of the two Corporations having now been clearly laid down by the Ministry, there is no justification for the merge at this stage. Further, this matter has

been considered on more than one occasion by the Ministry of Tourism & Civil Aviation, in having taken the general view that the two Corporations as they exist today, should complement and supplement each other's effort in promotion of tourism to India. It has further been pointed out that it would be difficult for Air India to either transfer its equity participation to ITDC, or to make fresh investment in ITDC in view of the provisions of the Air Corporations Act. The Ministry Officials have also in one of the meetings expressed the view that HCI having been set up for good and sufficient reasons, it would not be desirable to close it down or merge it down or merge it with ITDC, particularly when the Ministry is aware of the difficulties that arose on the merger of the Janpath with ITDC."

1.19 When the Committee enquired as to what was the need for HCI putting up hotels at places other than Airports, the Secretary, Department of Civil Aviation admitted in evidence:

> "You are quite correct that our HCI hotels should be at places where our Air India is going. But the only exception is Srinagar. But essentially I would say that Air India should not be putting up hotels in all places."

1.20 The Committee asked what according to the Ministry should be the role of HCI. The Ministry of Transport (Department of Civil Aviation) in a written reply stated:

> "Even though the primary function of HCI is to develop and manage hotels near airports for use of Air India, their venturing into allied fields and tapping the tourist market is permissible. As it is, HCI is having hotels near the airports at Delhi and Bombay, flight kitchens at Delhi and Bombay. Therefore, after meeting their primary function, HCI has ventured way into other fields to provide a boost to tourism. For example, in order to attract buddhist pilgrim traffic from Japan, a hotel has been built in Rajgir which is expected to improve the tourist inflow from Japan."

1.21 Expressing a view that the overlapping of activities and functions of ITDC and HCI is not desirable from the point of view of promotion and development of tourism in the country, the Committee wanted to know the Ministry's reaction to the suggestion of merger of HCI with ITDC to avoid unnecessary competition within

the public sector. The Ministry stated in a written reply that this issue had been commented upon in the past also and that as long as the efforts of HCI did not come in the way of ITDC, both could co-exist supporting each other.

(iii) *Utilisation of HCI hotels by Air India*

1.22 Keeping in view that HCI was set up for meeting Air India's requirements of Hotel accommodation needs for its crew transit and other passengers, the Committee wanted to know the extent of utilisation of HCI hotels by Air India. The Managing Director, HCI replied in evidence that the percentage of rooms utilised by Air India was 43 per cent. Out of the 288 rooms available in Centaur Hotel, Bombay. Air India is stated to have been utilising only 125 rooms although Air India's requirement is of the order of 450 rooms. Admitting that Air India has no objection in utilising all the rooms in Centaur Hotel, the Managing Director, HCI explained the reasons for not providing all the rooms at the disposal of Air India:

> "The reason is that the rate per room of Air India is Rs. 350.....and the rate that we can get from non-Air India business is much more viable."

> "It is for me to see my profitability because the return per room is higher from other sources...The question then arises as to when we shall be able to meet their needs. The answer is that when our Juhu Beach Hotel comes up, then we will be able to meet their needs."

1.23 When the Committee expressed the view that though HCI was set up by Air India with its capital, Air India was not given by HCI all rooms to meet their requirements, the Chairman, HCI, stated in evidence:

> "Air India's requirements is not constant throughout the week. There are days when our requirement of rooms will be more and there are days when our requirement is less. To that extent HCI has to depend upon business from outside. We have various kinds of passengers. Centaur is a fairly good hotel. And we need not pay that higher rate for all passengers. There are other hotels where we get rooms in Rs. 250. To that extent Air India is also selective."

1.25 The Committee enquired whether it was not envisaged at the time of setting up of HCI hotels that it should cater to the different categories of passengers of Air India. Further whether the economic viability was not taken into account at the time of establishment of Centaur Hotel granting the fact that HCI's objective is to meet the full requirements of Air India. The witness replied:—

> "In 1975 when the Centaur Hotel came into existence, there was no airport hotel at all and it was necessary to take the transit passengers to far away hotels. After coming into existence, the Centaur Hotel is operating at more than 100 per cent occupancy for the last few years. It is true that all the rooms are not utilised by Air India at all times, but the hotel is running at 100 per cent occupancy."

1.25 The Committee wanted to know the extent of utilisation of hotels in respect of Air India in Bombay and Delhi during the last three years including tariff per room at the hotels. Air India has informed the Committee that the number of passengers accommodated at the various Hotels in Bombay for the year 1983-84 and 1984-85 is as follows:—

Name of Hotel	Tariff Rs. Oct.1984	Number of Passengers 1983-84	1984-85
Centaur	500·00	86080	82732
Oriental Palace	125·00	9339	14532
Ajanta	175·00	21870	19435
Citizen	155·00	10990	14053
Horizon	228·00	29779	26917
Transit	216·00	6998	5195
Airport Plaza	245·00	8808	2807
Palm Grove	250·00	4940	3176
Holiday Inn	350·00	1756	1253
Sun-N-Sand	360·00	39	51
Sea Roack	450·00	5556	2207
Taj	650·00	143	100
Oberai Towers	475·00	28	..
Other Hotels		482	614
	Total	186808	173072
	Centaur	86080	82732
	Other Hoetls	100728	90340

1.26 Air India, however, has informed the Committee that it had not been possible to get such details for the year 1982-83. It has been stated that there are no ITDC Hotels in Bombay. It may be seen from the above particulars that 143 passengers in 1983-84 and 100 passengers in 1984-85 were accommodated at Taj Hotel whose tariff is the highest as compared to all other Hotels including that of Centaur and this was reportedly necessary to meet the requirements of First Class Passengers and on other commercial consideration.

1.27 As regards Delhi, similar information for the last three years is given below:—

Name of Hotel	Tariff Rs. (1983-84)	Number of Passengers		
		1982-83	1983-84	1984-85
Centaur	350	6177	10198	10344
Ashoka	440	1592	55	2
Janpath	350	219	5	21
Qutab	330	149	Nil	5
Central Court	190	785	Nil	14
Akbar	500	123	1	Nil
Ambassador	..	37	Nil	Nil
Taj Mansingh	600	60	27	20
Maurya Sheraton	350	74	86	38
Siddartha	..	9	Nil	Nil
Lodhi	300	126	26	2
Imperial	350	106	1	1
Vikram	..	30	Nil	Nil
Claridges	..	6	Nil	Nil
Oberai	550	10	3	5
Kanishka	400	2	20	Nil
Ranjit		2	Nil	Nil
Hyatt	..	1	Nil	Nil

1.28 Regarding hotel accommodation at Bombay provided to Air India's crew, the Committee have been informed that Bombay is not crew layover station and therefore the question of providing

hotel accommodation for the same does not arise. However, whenever there are occasions for the crew to layover such as European Air Hostesses|Japanese Air Hostesses and in respect of crew based at London and Perth, whenever they operate a flight to Bombay, they layover normally at the Centaur Hotel.

1.29 At Delhi the Operating Crew layover at the Ashoka Hotel where the room rate is Rs. 424 per day. As regards Cabin Crew, they layover at Centaur Hotel, Palam and Samrat Hotel, Delhi. 38 members of tht crew layover at Centaur and equal number at the Samrat. The room rate at Centaur is Rs. 350 plus 10 per cent service charges per day and Samrat is Rs. 265 plus 10 per cent service charges per day.

II. PROJECT IMPLEMENTATION

(1) *Central Hotel Juhu Beach*:

2.1 The proposal for construction of this hotel was included in 6th Five Year Plan and was approved by PIB in January, 1979 at an estimated cost of Rs. 12.82 crores with foreign exchange component of Rs. 1.13 crores The project was initially scheduled for completion by March, 1980. However, the target was fixed on the assumption that construction of the Hotel would commence during 1977-78 itself. HCI informed the Committee that on account of following reasons, there had been considerable time and cost overruns in execution of the project:—

(i) Based on the Municipal Regulations then prevailing, in terms of which hotels in Bombay were entitled to FSI of 1.5, the designs and drawings for the hotel had been prepared by the Architects and submitted to the concerned local agencies. However, Bombay Municipal Corporation accorded the permission for construction based on FSI of 1.0 only. Since the acceptance of the lower FSI would have enabled the construction of about 150 rooms only, which would have vitiated the economical viability of the project, the question of enhancing the FSI to 1.5 was again taken up with the State Government and was finally approved after protracted correspondence and discussions with the State Government only in June, 1982. In the context of uncertainty in regard to the additional FSI, the construction of the hotel had to be slowed down, award of various contracts were also deferred till the question was resolved satisfactorily. It would be thus observed that the time overrun in this case was attributable to the factors beyond the control of the Company.

(ii) On account of considerable time overrun and increase in the cost of construction, our Civil Contractor demanded an increase in rates. Since there was no provision for increase in rates as per the original contract, after considerable correspondence, the contractors referred the case to the Arbitrator. After detailed discussion with Architects, Legal Adviser, Arbitrator and the Civil Contractor,

the Management recently decided to settle the case mutually in order to avoid further time overruns and consequent cost overruns. Accordingly, the supplementary agreement was executed on 28th December, 1984. The revised project cost on the basis of the additional payments being made to the contractor to the tune of Rs. 1.25 crores and taking into consideration the various contracts already awarded now stands at Rs. 27.75 crores as against the original approved cost of Rs. 12.82 crores The increase is attributable to the combined effect of increase in the construction cost indices at the time the project could finally commence, increase in cost admissible to the contractor in terms of escalation clause provided in the agreement, changes in the scope of project by the increase in number of the rooms and the additions of certain facilities not included in the original proposal, changes in the statutory levies etc. The variations in the cost under the broad headings are analysed as below.

	(Rs. in crores)
(1) Escalation .	10·25
(2) Changes in scope/additions .	2·34
(3) Omissions .	0·16
(4) Others	1·49
(5) Under estimation increase over the revised cost Rs.27·75 .	0·69
Less Original cost Rs.12.82	
	14·93

The Hotel is now expected to be partially commissioned by June, 1986

2. *Centaur Lake View Hotel, Srinagar*

2.2 The construction of 281 rooms CLVH at Srinagar as part of the Convention Centre Complex at Srinagar, Kashmir was included in the 6th Five Year Plan and was approved by the Ministry in March, 1979 at an estimated cost of Rs. 10.99 crores. The Hotel was partially commissioned with 53 rooms effective from 5-12-1983 and additional rooms were commissioned on 9-5-1984.

2.3 According to the feasibility report submitted in August, 1977, the commissioning of the Hotel was set for April, 1981. However, on account of delay in handing over the land earmarked for construction of the Hotel and appointment of the Architects, the civil construction work could not be awarded till May,1980. After awarding the contract the site could not be handed over to the Civil Works Contractor by the J&K Government as they had stored materials at the site work. This process resulted in delay in commencement of the Civil Construction. After the commencement of the actual Civil Construction Work and the other works the winter conditions in Srinagar became extremely severe and the work had to be slowed down. This inclement weather conditions continued the last thre working seasons in Srinagar and had attributed to the large time overrun in the project, which was beyond the control of the Management.

2.4 The revised cost of the project on the basis of contracts already awarded now stands at Rs. 20.43 crores and has been duly approved by the Government. The main reasons for the increase in the cost are as under:—

(i) *Escalation*

The original feasibility report was prepared in the month of August, 1977, on the construction cost index of January 1977. The approval for the construction of this Hotel was received in the month of March, 1979 when the construction index had increased from Rs .178.8 on January, 1977 to Rs. 234.01 in April, 1980 i.e. the time for calling tenders for various work. The increase worked out to 31%.

(ii) *Changes in the Statutory Levies*

The import duty on imported equipments have gone up considerably. And the excise duty on certain items of construction have also increased.

(iii) *Changes in the Scope/Additions*

Against the originally envisaged built up area of 20.057 sq.m. the revised built-up area works out to 22.465 sq.m. The increase in the cost works out to Rs. 42 lakhs.

(iv) *Certain Omission like LPG Tank, Diesel Generators etc.*

On account of the present disturbances in the northern region the inflow of tourists to Srinagar has considerably reduced. This has resulted in low average room occupancy

and hence the commissioning of the further rooms has slightly been delayed.

3. *New Bombay Flight Kitchen*

2.5 The Company is operating a Flight Kitchen at the Domestic Airport at Bombay since October, 1969 and it has been finding it very difficult to cope up with the existing business of Air India and Indian Airlines, as a result it is not in a position to accept any additional business from other Airlines. In the 6th Five Year Plan, the Company decided to construct a new flight kitchen at New Airport Complex at Sahar with most sophisticated and modern equipments which was approved by the Government in April, 1980 for an estimated cost of Rs. 3.00 crores.

2.6 The project report was prepared in 1978 on 1977 prices of materials and labour. However, on account of delay in acquisition of land from IAAI (in October 1980, the tenders were invited for Civil Works in September, 1981 and the actual construction work started in May, 1982. This has resulted in time and cost overruns. The revised cost of the project on the basis of contracts already awarded now stands at Rs. 5.13 crores and the same has been submitted to the Government for its approval.

4. *New Delhi Flight Kitchen*

2.7 The New Delhi Flight Kitchen with sophisticated modern equipments at NITC Palam, New Delhi was commissioned in June, 1983. The project was approved during the month of April, 1980 at an estimated cost of Rs. 2.50 crores. The cost of the project revised during the submission of Mid-term Review 6th Five Year Plan documents, considering the escalation that had taken place during the past couple of years after the receipt of the Government approval was placed at Rs. 4.13 crores.

5. *Centaur Hotel Delhi*

2.8 The Five Star Hotel with 416 rooms near NITC Palam Airport, Delhi was commissioned partially on 15th November, 1982 for Asiad. The hotel was completed in phases, subsequently on the occasion of NAM and CHOGM. The approved cost of the project was Rs. 20.25 crores. The project was reportedly completed within the budgeted cost estimate and without any time overrun.

III WORKING RESULTS

The overall working results of the Company from 1979-80 onwards as originally budgetted and actually achieved are given in the Statement at *Appendix* 1.

3.2 It will be seen from the statement that the operating profit of the Company has shown declining trend after 1980-81. From operating profit of Rs. 293 lakhs in 1980-81, the operating profit declined successively to Rs. 274 lakhs in 1981-82, to Rs. 216 lakhs in 1982-83 and to Rs. 159 lakhs in 1983-84. The operating profit was, however, budgetted at a higher level of Rs. 297 lakhs in 1984-85.

3.3 The net profit has also declined from Rs. 219 lakhs in 1980-81 to Rs. 197 lakhs in 1981-82 and to Rs. 36 lakhs in 1982-83. The Company incurred a loss of Rs. 320 lakhs in 1983-84 and budgetted a loss of Rs. 389 lakhs in 1984-85.

3.4 According to the HCI's Annual Report (1982-83), the decline in profit before tax to Rs. 36 lakhs in 1982-83 was due to heavy burden on account of interest, depreciation and other fixed expenses arising out of commissioning of Centaur Hotel at Delhi and also due to expenses incurred for renovation of work undertaken by the Company at its various units during ASIAD in Nov. 1982 and Non-aligned Meet in March, 1983.

3.5 HCI informed the Committee that the loss of Rs. 320 lakhs in 1983-84 was mainly on account of unfavourable operational results of the new units viz. Centaur Hotel Delhi Airport and Centaur Lake View Hotel, Srinagar. The average occupancy at Centaur Hotel Delhi Airport was around 46% only on account of stiff competition as a result of excess room capacity that has become available in Delhi following the Asiad. As regards Srinagar hotel, the hotel was commissioned during the off-season mainly to impart training to the staff who are largely from the valley and therefore relatively inexperienced. The heavy burden of interest and depreciation at both the units was also responsible for the unfavourable results. Certain other developments in the region have also led to decline in tourism to the valley and this has been one of the factors affecting the occupancy of the hotel.

3.6 For 1984-85, the Company estimated a total revenue of Rs. 2454 lakhs which was Rs. 320 lakhs higher than that of 1983-84 mainly because of the full years operation of the new unit *viz.* Centaur Lake View Hotel, Srinagar and improved performance of other units namely Centaur Hotel Bombay Airport, Centaur Hotel Delhi Airport and the flight kitchens at Bombay and Delhi. During the year another 100 rooms were added to the Hotel at Srinagar but because of the disturbed conditions in Jammu and Kashmir and Punjab, the unit has reportedly not done well as was expected. HCI informed the Committee that though the Company estimated to earn a gross profit of Rs. 297 lakhs, however, because of heavy incidence of depreciation and interest charges for new units *viz.* Centaur Hotel Delhi and Centaur Lake View Hotel Srinagar the Company was expected to incur a net loss of Rs. 389 lakhs.

The financial performance of the major units of HCI is dealt with as under:—

(i) *Centaur Hotel Bombay Airport*

3.7 The working results of the Centaur Hotel Bombay Airport during 1979-85 are given in the statement *Appendix II*. The statement shows that as compared to the targets and budgetted estimates, this unit has consistently made higher profits during the last five years except in the year 1982-83. The fall in the net profit before appropriation in year 1982-83 was mainly on account of increase in energy cost and water charges, revision of pay scales for the Union Category of staff and increase in expenditure on soft furnishings and maintenance on account of normal and special renovations for ASIAD and NAM in public areas as well as rooms. The average room occupancy throughout the last five years was above 100% The net profit in 1983-84 was Rs. 178.21 lakhs i.e. 17 % of the total revenue.

3.8 As regards 1984-85, total revenue was estimated at Rs. 1204.00 lakhs and the net profit was Rs. 262.00 lakhs i.e. 22% of the total revenue. This was mainly on account of major economy measures taken by the unit, increase in number of covers for F & B revenue and average room occupancy attained of 102% as against 101 per cent of 1983-84.

(ii) *Centaur Hotel Delhi*

3.9 The hotel was commissioned with 200 rooms for Asiad effective 15-11-82 and another 148 rooms were added effective

1-3-83. The working results of the hotel during the last 3 years are given in the statement below:—

(Rs. in lakhs)

	1982-83 Budget	Actuals	1983-84 Budget	Actuals	1984-85 Budget
Total Revenue . . .	116·50	113·69	325·18	347·31	364·89
Total expenditure . . .	121·65	136·43	289·20	310·35	323·10
Operating profit (Loss) before Depreciation & Interest . .	(—5·15)	(—22·74)	35·98	36·96	41·79
Depreciation . .	50·80	59·94	169·43	176·99	180·00
Interest	59·66	55·73	165·00	165·19	196·00
Net Profit (Loss) before Appropriation	(115·61)	(138·41)	(298·45)	(305·22)	(334·21)

3.10 The average occupancy of the hotel for the period November, 1982 to March, 1983 was 75.55% approximately. However, on account of excess room capacity that became available following the Asiad and distant location from the present (old) International Airport, the average room occupancy during the year 1983-84 was only 44 per cent. For the year 1984-85 the total revenue was estimated at Rs. 365.00 lakhs. Though the hotel was expected to make an operating profit of Rs. 42.00 lakhs, because of the heavy incidence of depreciation and interest, the hotel has incurred a net loss of Rs. 33400 lakhs. The average room occupancy was estimated at 46 per cent.

3.11 The hotel at present is incurring a loss on account of lower room occupancy, heavy burden of interest and depreciation. The occupancy of the hotel was expected to improve with the commissioning of the New International Airport at Delhi in November, 1985 and consistent marketing efforts thereby improving the financial viability of the unit.

(*iii*) *Centaur Lake View Hotel, Srinagar*

3.12 The hotel was partially opened effective 5-12-1983 with 53 rooms initially. In the financial year 1984-85, the hotel was made operational with 153 rooms (with the addition of 100 additional rooms) in May, 1984 at the time of TAAI convention. The

financial performance of the hotel during the last 2 years is given below:—

(Rs. in lakhs)

	1983-84 Budget	1983-84 Actual	1984-85 Budget
Total Revenue	2·35	3·60	72·20
Total Expenditure	35·55	59·34	144·08
Operating profit (Loss) before Depreciation & interest	(33·20)	(55·74)	(71·88)
Depreciation	21·00	14·98	100·00
Interest	40·13	37·21	112·00
Net Profit (Loss) before Appropriation	(94·33)	(107.93)	(283·88)

3.13 The hotel was opened in December, 1983 mainly to impart training to the staff who are largely from the Valley and relatively inexperienced. December to March being winter season, the total revenues earned was a marginal one. However, on account of certain fixed operating costs such as staff cost, power and fuel etc. and heavy burden of interest and depreciations, the Hotel incurred a net loss of Rs. 107.93 lakhs before appropriation as against the budgetted net loss of Rs. 94.33 lakhs. The general situation in the region during the period also affected the tourist traffic to the Valley and adversely affected the occupancy of the hotel.

3.14 According to information given to the Committee in the financial year 1984-85, however, on account of disturbed conditions in J & K and Punjab, the inflow of domestic and foreign tourists to Srinagar was considerably affected. As a result, the actual average room occupancy was estimated at 20 per cent only. The total revenue was estimated at Rs. 71.88 lakhs. On account of heavy depreciation and interest burden, the estimated net loss would be Rs. 284.00 Lakhs.

3.15 The Committee have been informed that the occupancy of the hotel was expected to improve in the financial year 1985-86 due to intensive marketing efforts which would enable the hotel to improve its performance.

3.16 The Committee enquired about the present occupancy ratio in the Srinagar hotel. The Secretary, Civil Aviation stated in evidence:—

> "It has reached last year 65 per cent. There is a very perceptible improvement. I was told by Managing

Director that we are better equipped this time and it may reach 70 to 75 per cent."

3.17 Asked about the present arrangement for promotion of Convention centre at Srinagar, the withness said:—

"The present arrangement is that this Hotel and the Convention Centre is projected to the outside world by HCI as a co-ordinated effort in which for the publicity compaign the Kashmir Government is also contributing. That is one positive step. The second positive step taken was the selling of this convention at the international level or at the national level is entrusted to HCI and if it is able to bring business of any meetings, they will immediately provide facilities for them. That means a larger responsibility of selling the convention has been passed on in a practical sense to HCI and not the local centres. This no doubt revolves around the convention facilities and then there are other tourists also."

(iv) Flight Kitchens—Bombay & Delhi

3.18 The fight Kitchens at Bombay and Delhi cater to the requirements of Air India, Indian Airlines and some of the other international airlines operating through Bombay and Delhi.

3.19 The operating profits of the flight kitchens at Bombay and Delhi are given in the statement at Appendix III. The statement shows that the profits of Bombay Flight catering started declining from Rs. 64 lakhs in 1980-81 to Rs. 20 lakhs in 1981-82 and Rs. 22 lakhs in 1982-83 and it made only a marginal profit of Rs.1 lakhs in 1983-84. In 1984-85, however, it could not make any profit. As regards, Delhi Flight Kitchen, its profit declined sharply in 1980-81 and it incurred a loss of Rs. 35 lakhs in 1983-84 and Rs. 43 lakhs in 1984-85.

Bombay Flight Kitchen

3.20 HCI has explained in a written note that 1980-81 was a peak year for Bombay Flight kitchen since besides Indian Airlines, full Air India business originating ex-Bombay was being catered by Bombay Flight Kitchen. The decline in profit from Rs. 64 lakhs in 1980-81 to Rs. 20 lakhs in 1981-82 was reportedly due to labour unrest in early 1981-82 which resulted in Air India transferring part of its business to private caterers. In 1983-84, as compared to 1982-83, there was a fair reduction in the Operating

profit of Bombay Flight Kitchen from Rs. 22 lakhs to Rs. 1 lakh on account of following reasons:—

(i) The actual rate increase allowed by the User Airlines did not match up to the increase in the cost of raw materials.

(ii) Strict hygienic measures including regular medical check-up of all operational staff were introduced resulting in additional cost to the Corporation.

(iii) Staff cost increased considerably on account of wage settlement agreement signed with the Union.

In 1984-85, the Bombay Flight Kitchen made a marginal operating loss of Rs. 0.09 lakhs (provisional)

3.21 The Committee wanted to know to what extent decline in profit of loss incurred by Bombay Flight Kitchen was attributable to uplift of catering by Air India from private caterers. HCI stated in a written reply:

"In April, 1981, Bombay Flight Kitchen employees went on strike resulting in disruption of catering arrangements. With the result, Air India had to hand over part of the catering uplift ex-Bombay amounting to 21 flights per week to other private cateres *viz.*, Taj Flight Kitchen. The total amount of business at the prevailing rate amounted to Rs. 90 lakhs approximately. Although 21 flights per week were transferred to Taj Flight Kitchen. subsequently other additional flights introduced by Air India originating ex-Bombay were given to Bombay Flight Kitchen only. As a result of this additional business, to a large extent the business lost on account of 21 flight now being catered by Taj Flight Kitchen was partially reinstated in the year 1981-82 and thereafter.

With the reduction in Air India business, the Direct Variable Cost e.g. cost of Raw Materials were proportionately reduced, however the overheads such as Staff Cost, Rent, Rates & Taxes, Fuel Cost to certain extent, Maintenance, Insurance, etc. could not be reduced in the same proportion, which has affected the overall profitability of Bombay Flight Kitchen. After taking into account the partial recoupment of loss of catering revenue of Rs. 46

lakhs (loss of revenue due to 21 flights—Rs. 88 lakhs less additional business received—Rs. 42 lakhs) and considering that over the past period we were making 8—10 per cent net profit to total revenue; as a result the decline in profit to the extent of Rs. 5 lakhs can be attributable to the above reduction in Air India business."

3.22 Asked as to what necessitated Air India to uplift part of its catering from private agency when there is flight kitchen of HCI, it was stated in a written reply furnished by HCI:—

"The decision to give part of the catering to private agency *viz.* Taj in Bombay was taken after very careful consideration. In fact, due to labour problems in 1980 itself the question of having an alternate source was considered, but the proposal was shelved. In April, 1981 however, Chefair employees went on strike resulting in disruption of catering arrangements. In Bombay, all the flight kitchens have affiliation with the same Union excepting that of Taj flight kitchen. Therefore, the alternate source remained restricted to Taj flight kitchen."

3.23 Apart from the above introduction of the element of competition had desired affect on the unions since they are now aware that it is not easy to disrupt the services of Air India.

3.24 Air India has been uplifting catering from Taj flight kitchen since April, 1981. Asked about the value of catering uplifted from Taj so far, Air India, in a written reply stated that the value of catering including flight handling charges ex-Taj flight kitchen were as under:—

Period	Catering/Handling Expenses on Chefair	Taj	Total
		(Rs. in lakhs)	
April 1981 to March 1982	159·62	128·79	288·40
April 1982 to March 1983	178·95	125·52	304·48
April 1983 to March 1984	205·14	135·24	340·38
April 1984 to March 1985	215·30	142·00	357·35

3.25 HCI informed the Committee that catering uplift at Bombay cannot be done by public sector ITDC hotel because they do not have any catering establishment in Bombay. In regard to Calcutta, Air India informed the Committee that catering at Calcutta is by ITDC Hotel. At Madras, Taj Coromandal provided catering facilities of the order of Rs. 16.57 lakhs in 1983-84 and Rs. 21.35 lakhs in 1984-85. ITDC has no catering establishment at Madras. At Trivandrum, catering for Air India is done by Hotel Luciya and this is mainly due to the proximity of the establishment to the airport. The value of catering amounted to Rs. 15.14 lakhs in 1983-84 and Rs. 15.53 lakhs in 1984-85.

Delhi Flight Kitchen

3.26 As compaired to the operating profit of Rs. 20 lakhs in 1979-80, the Delhi Flight Kitchen made an operating profit of Rs. 8 lakhs in 1980-81. The profits increased to reach Rs. 27 lakhs in 1981-82 and to Rs. 35 lakhs in 1982-83. Delhi Flight Kitchen however, made an operating loss of Rs. 35 lakhs in 1983-84 for the following main reasons:—

(i) Whereas Delhi Flight Kitchen were catering to all Flights from the old flight kitchen at Palam Airport, from June 1983, when the New Flight Kitchen at Centaur Hotel Delhi Airport was commissioned it commenced catering for the international flights from the new flight kitchen and the domestic flights from the old flight kitchen for good reasons, and as a result it was constrained to maintain two flight kitchens for almost 5 months, resulting in sub-optimisation and duplication of resources and expenditure.

(ii) Reduction in business from Indian Airlines due to split up of business by Indian Airlines to three different caterers.

(iii) Provision for some outstanding doubtful debts had to be made at the insistence of the auditors.

(iv) The wage settlement agreement with the Delhi Flight Kitchen Union for the year 1983 onwards was also finalised during the year under review.

3.27 Delhi Flight Kitchen suffered an operating loss of Rs. 43 lakhs for the year 1984-85, for the following reasons:—

(i) There was a fall in total revenue as compared to 1983-84 mainly due to non-materialization of anticipated 10% increase in catering and handling rates of Air India.

(ii) Reduction in Indian Airlines business has also contributed to the fall in total revenue.

(iii) As per the agreement signed with International Airports Authority of India, Delhi Flight Kitchen is liable to pay turnover tax at 2% of flight kitchen Revenue effective Ist July, 1983, amounting to Rs. 8.77 lakhs (Rs. 3.44 lakhs for 1983-84 and Rs. 5.33 lakhs for the current year). The same has been provided during the year under review.

Future Strategy

3.28 In reply to Committee's query as to how it proposed to improve the profitability of the Company, HCI stated in a written note:—

"The Corporation has completed and commissioned three hotel projects in the last 3 years since 1982 and its major objectives at the present time is to consolidate its operations. These 3 new properties are going through a period of gestation and the present adverse profile of the Corporation is being corrected through vigorous marketing efforts on one hand and a very stringent cost control plan which is being implemented on the other.

As a result of its present poor geographical location Centaur Hotel Delhi Airport has only been able to generate a much lower proportion of transit passengers and layover passengers than was anticipated. However, this position will change radically with the opening of New International Terminal Complex (NITC) at Palam Airport which will handle exclusively all International

arrivals|departures. The Centaur Hotel Delhi Airport is a mere stone's throw from NITC and will then have a positive locational advantage over all other Delhi hotels as far as layover and stopover passengers are concerned. It will then remain for HCI to ensure that all stopover and layover passengers are monopolised by Centaur Hotel Delhi Airport through consistent imaginative and vigorous marketing efforts on its part.

In so far as Centaur Lake View Hotel, Srinagar is concerned, the original proposal that HCI will manage and operate the Convention Centre did not fructify and efforts were being made by the J &K Government to promote the Convention Centre. However, it had now been agreed between our Ministry and the J&K Government that a budget will be allocated for the purpose of joint promotion of the Complex. With the allocation of this budget, it will become possible to further augment our already successful selling efforts in the domestic market with congress and convention traffic from abroad with the assistance of Air India's over one hundred offices in different countries.

The profitability of the Bombay Flight Kitchen has been adversely affected since Air-India was constrained to divert huge business to other caterers, one reason being this Flight Kitchen was not large enough to cater to the increase in requirement of Air India. Our New flight kitchen in Bombay has been completed and is awaiting receipt of Occupation Certificate before being commissioned. Once the New Flight Kitchen at Bombay is commissioned, our understanding is that all of Air India's business entrusted to other caterers will revert back to Chefair.

In order to rigidly control the costs, the HCI Board had constituted a Cash Flow Committee to review the expenditure from time to time. A series of steps have been now taken to optimise expenditure. It is anticipated that these steps will result in material savings in all units of the Corporation."

3.29 The Company had submitted its 7th Five Year Plan to the Government for the period 1985-86 to 1980-90. It had proposed

to construct two Five Star Hotels abroad, one at London with Flight Kitchen Facility and another either at New York or Rome and a Four Star Hotel at Goa|Madras or Trivandrum.

3.30 The total planned expenditure (excluding expenditure for subsidiaries and continuing projects) as submitted was Rs. 11,944 lakhs which was to be financed by raising Equity Capital to be allotted to Air India and Term Loans from the Financial Institutions on the debt equity of 2:1. (Air India Equity Rs. 3994 lakhs and loan from financial institutions, Rs. 8000 lakhs). However, on account of financial restraints, Air India has proposed to reduce the equity participation in HCI in the 7th Five Year Plan from Rs. 40 crores to Rs. 25 crores only. As a result, the Management has decided to have only one Hotel with Flight Kitchen facilities at London and another Four Star Airport Hotel at a suitable place in India, at revised Air India equity contribution of Rs. 25 crores. The financial forecast for HCI during the 7th Five Year Plan is given in the statement at Appendix IV.

3.31 In the performance review meeting held by the Department of Civil Aviation on 11th November, 1985 it was stated that HCI was likely to end up with a loss of Rs .125 lakhs during the first six months of 1985-86.

IV. GENERAL

(i) *Complaints*

4.1 The Committee desired to know the general nature of complaints received by HCI and steps taken to correct the situation. HCI stated in a written reply that the general nature of complaints received by HCI is on the same lines as those received by any other large Five Star chain of hotels. An analysis at random of all the complaints received in April, 1985 regarding the Centaur Hotel Bombay Airport is given below:—

Analysis of Complaints

1.	Poor service in general	10
2.	Complaints against Lobby Manager/Asst. Lobby Manager	8
3.	Poor quality of food	7
4.	Poor room service (including incorrect Orders)	7
5.	Telephone service	6
6.	Front Office	5
7.	Rudeness	5
8.	Bell boys	5
9.	Bathrooms	5
10.	Restaurant service	3
11.	Room Cleanliness	2
12.	Slow checkout	2
13.	Slow chekin	1
14.	Transport driver	1
15.	Doorman	..
16.	Swimming pool not usable	..
17.	Carpet dirty	..
18.	Airconditioning	..
	TOTAL	67

4.2 HCI added in the written reply that from the above analysis, it would be seen that whereas the total number of room nights in the month was of the order of magnitude of around 30,000 the total number of complaints received was only 67, which is 0.22 per cent.

4.3 The Committee drew the attention of HCI to a press report which stated that there were reports of financial bungling and misuse of materials at Centaur Hotel, Delhi with the alleged connivance of some senior officials. There were allegations of wastage of Rs. 50 lakhs worth of foreign exchange on import of kitchen equipment which had been lying unused for years, attempt to exonerate the manufacturer in a case of transformer which burnt during the warranty period due to manufacturing defect, use of substandard material in the construction of hotel leading to huge cracks, bungling in light diesel oil stocks, missing of 40 per cent of crockery in the hotel etc.

The Committee asked whether any enquiry was conducted to ascertain the facts in this regard with a view to take action against those involved. HCI informed the Committee in a written reply that the news item in question, was brought to the attention of the Management and that the matter was examined by the Management. It would appear from the report before the Management that there was no financial bungling. A copy of the report was also submitted to the administrative Ministry in July, 1985. The extracts of the management report are as follows:—

Kitchen equipments

"None of the equipment imported for the hotel as well as the Flight Kitchen was lying packed|unpacked at Bombay, and there was no equipment, lying unused at Delhi Certain equipment, the total value of which was Rs. 1.6 lakhs out of the total of Rs. 50 lakhs worth of equipment imported for these units, had been rendered surplus either due to re-organisation of the hotel kitchen| flight kitchen or due to reduction in business. HCI's management had, therefore, decided to shift these equipments, if possible, to the new projects, thereby reducing the quantum of imported equipments for the new hotels and saving foreign exchange.

Transformers

The transformers were manufactured and installed by M|s. Crompton Greaves Ltd., one of the leading manfacturers

of the equipment. One of the three transformers did burn out in July, 1983 and the cause of failure was investigated. It was clearly established to faulty operation of the transformer, for which the services of the responsible engineer were terminated. The Corporation negotiated with the manufacture for free of cost repairs to the transformer, who agreed to repair the transformer free of cost, provided the Corporation agrees to transport the transformer to the Manufacturer's Works at Bombay.

Cracks

Some minor cracks in 2 walls of the dirty area, which measure only about 50 sqm. had developed, not as a result of improper use of cement and sand mixture, but because of water logging due to drains which had been found to be blocked. Operators have been instructed to clear the drains, and steps are taken to get the cracked walls repaired. Out of a total flooring area of 30,000 sqm. some kota stone pieces totalling less than 5 sqm. have cracked in the last two years in the garbage room due to extremely heavy use, which require to be replaced.

Light Diesel Oil

Calibrations of the oil tanks had been done. It was reported by the Internal Auditor of the Corporation that during operations of the hotel, in one particular instance, the Corporation was billed for LDO in excess of the quantity actually supplied Since there was *prima facie* evidence of culpability of the operating staff, Management of HCI requested the Vigilance Department of Air India for investigation into the matter who have, in turn, referred the case to CBI for detailed investigation. CBI report is still awaited.

Crockery

There is no report of any crockery missing from the hotel under any mysterious circumstances. The hotel industry in India accepts a norm of 15 per cent—20 per cent breakage of crockery per annum. The breakage of crockery in the Centaur Hotel, since its very inception, has been within the above limits.

Staff Turnover

There has been a turnover of approximately 20 per cent of the staff in the last three years. With the opening of the new hotels in Delhi in these years, there has been a perennial shortage of trained staff. The 164 staff who resigned in the last three years, joined other hotels to improve their prospects having been trained in the Centaur Hotel."

(ii) *Labour-Management relations*

4.4 The employees of Centaur Hotel at Delhi Airport were on strike from 19th May to 4th June, 1984 and the workers resorted to go slow tactics from 21st July, 1984 to 3rd August, 1984. The mandays lost on account of strike were 7500 approximately. The employees of Centaur Hotel at Bombay also went on a lightening strike on 14th May, 1984 resulting in a loss of 500 mandays. According to HCI, during the strike period, the hotel was kept operational by the executives and certain loyal staff, whereby minimum of inconvenience was caused to the guests. In reply to Committee's query, HCI stated in a written reply that the reasons for strikes at the Centaur Hotel Delhi Airport were as follows:—

"Two of the office bearers of the Union had initially assaulted a Time-keeper inside the kitchen and on the basis of the complaint lodged by the Time-keeper a preliminary enquiry was instituted by the Management which was being held by the Security Officer. While the preliminary enquiry was in progress the Security Officer was garaoed by the employees on the instigation of the 3 office bearers of the Union, who were finally suspended and charge sheeted and they also gheraoed the Personnel Manager and the General Manager. Thereafter, on the instigation of the 3 office bearers of the Union, the employees took out a morcha through the Lobby of the hotel in full view of the hotel guests demanding that no action be taken against the 2 union office bearers who had assaulted the Time-keeper. Officials of the Corporation had been gheraoed and thereafter a morchā was taken out through the Lobby of the hotel could not be tolerated in the service industry and accordingly the Management suspended the 3 office bearers which led to a lightening strike in the hotel from 19th May to 4th June, 1984.

The employees resorted to go-slow tactics in July|August, 1984 since the Management had agreed that the enquiries against the 3 charge sheeted employees will be completed within a period of 30 days and the enquiries could not be completed within 30 days mainly since the employees defendants were not available for the enquiries as and when required and were adopting tactics to delay the enquiries. The employees watned that as the enquiries had not been completed within 30 days, the 3 employees should be taken back on duty and the enquiries declared null and void."

HCI added:

> "To charge sheet employees and take disciplinary action for acts of indiscipline is the basic right of the Management and even after the strike from 19th May to 4th June, 1984 the charge sheets and suspension orders were not withdrawn, the Management withdrawn, the Management only having agreed to complete the enquiries with a time bound programme and allow the employees to defend their cases through outsiders. An amicable solution to the problems could have been found had the union office bearers sat across the table with the Management and discussed the issue rather than resort to illegal lightening strike. Finally, as indicated above the strike was called off after the issues had been discussed with the union representatives across the table."

4.5 In regard to the strike at Centaur Hotel Bombay Airport, HCI explained in a written note as below:—

> "The Record Note of Discussions for wage revision proposal with the Centaur Hotel Employees Union represented by the Bharatiya Kamgar Sena was signed on 3rd October, 1983 and the proposal was thereafter sent to the Government on 5th October, 1983 for its approval. Since there was delay in receiving the Government's approval at the instigation of the union the employees resorted to a lightening strike from 11.00 a.m. to 4.00 p.m. on 14-55-1984 to press their demand for early approval to the wage revision proposal and payment of the arrears."

PART II

V. *Conclusions/Recommendations of the Committee*

5.1 Hotel Corporation of India Ltd. was formed in 1971 as a subsidiary of Air India with the primary objective of assisting Air India in meeting its hotel accommodation needs for the crews, transit and other passengers. The Committee's examination has revealed that even 15 years after its establishment HCI has not fulfilled this primary objective. Air India had to accommodate about 54 per cent of its passengers at Bombay in private hotels in 1983-84 and 52 per cent in 1984-85. The Committee are surprised to learn from the Managing Director of HCI that because of preferential rate of tariff allowed to Air India, HCI is not interested in giving more than 125 out of 288 rooms available in Centaur Hotel, Bombay Airport to Air India even though its requirement is of the order of 450 rooms. The Company's plea that HCI has to depend on business from outside to make the hotel commercially viable is hardly convincing and raises other issues. Two questions viz. (i) how the issue of viability was not taken into account initially and (ii) why the hotel was not designed to cater to different categories of Air India's passengers especially when the hotel was built to meet Air India's needs, remain unanswered. When HCI talks of commercial viability of the hotels run by it, it unwittingly tries to assume the role assigned to India Tourism Development Corporation which is contrary to the objectives for which HCI was created. The Committee are of the firm view that HCI should in future discharge its primary objective more effectively and there should be no deviations on commercial considerations.

5.2 The Committee regret that the micro objectives and obligations of the Company have not been spelt out so far on the lines indicated by BPE in 1970. It was only in 1985 the Company attempted to formulate the micro objectives which have, however, neither been quantified nor clearly defined to enable a meaningful evaluation of the performance of the Company. The Committee trust that action will be taken by the Company at the earliest to spell out the objectives in conformity with the existing guidelines and have them approved by the Administrative Ministry.

5.3 The Committee cannot but deplore the way the Ministry of Transport (Department of Civil Aviation) has been altering the role

of HCI without clear perspective. Although the Company was originally envisaged to play a complementary role to Air India by setting up hotels at airports to meet Air India's hotel accommodation needs, HCI has of late, been putting up hotels at the instance of or with the approval of the Ministry at places other than airports. The glaring examples are the Centaur Lake View Hotel at Srinagar, the Hotel at Juhu Beach and the Buddhist Centres. The Civil Aviation Secretary was frank enough to admit that these hotels shold not have been put up by HCI. The Ministry even went a step further in another instance in directing HCI to play an altogether different role viz. construction of a hotel on turn-key basis at Algiers in 1982 though the project failed to come through ultimately. The Ministry is presently stated to hold the view that the role of HCI should complement and supplement ITDC in its efforts to promote international tourism to India. The Committee feel that such variant and arbitrary modifications in the role to be played by the organisation which was set up for a specific purpose is not in the interest of its efficient functioning.

5.4 The Committee feel that the question of merger of HCI with the India Tourism Development Corporation Ltd. deserves serious consideration by Government considering the overlapping role of these two undertakings and with a view to avoid duplication of efforts and competition within the public Sector. Further, this step is necessary to ensure optimum utilisation of scarce resources in the large interests of the economy. It may be recalled that the Committee on Public Undertakings (1981-82) in para 7 of Part-II of their 48th Report (Seventh Lok Sabha) had suggested that HCI should be merged with ITDC to avoid unnecessary competition within the public sector. Again in para 14 of their 59th Report (Seventh Lok Sabha), the Committee while reiterating their earlier recommendation for merger of HCI and ITDC had observed that the Secretary of the Ministry had assured the Committee that the matter would be gone into by the Study Group that had been constituted for this purpose. The Committee would like to be informed of the action taken in pursuance of the recommendations of the Study Group in the matter.

5.5 The Committee are distressed to note that there has been a phenomenal cost escalation of the order of 116 per cent and an abnormal delay of over 6 years in the completion of the Centaur Hotel Juhu Beach project. The project which was originally scheduled for completion by March 1980 at an estimated cost of

Rs. 12.82 crores is now expected to be partially commissioned in June, 1986 with the revised cost of Rs. 27-75 crores. The undue delay in implementation of the project was reportedly responsible for an escalation of cost to the tune of over Rs. 10 crores. The Committee are of the view that there was no effective coordination at a fairly high level in Government to see that the project was completed on schedule. The Committee note in this connection that HCI could get final approval from the Bombay Municipal Corporation for the project only in June, 1982 after a long delay. The Company had to execute a supplementary agreement with the Civil Contractor in December, 1984 to settle the rates of contract. This process apparently took 18 months with corresponding delay in project execution. The Committee would await an explanation as to what were the lacunae in the original contract, who was responsible for these omissions and the reasons for long delay in settling the matter with the contractor. The Committee would also like to be informed as to the extent to which the cost escalation has altered the economies of the project.

5.6 The Centaur Lake View Hotel project at Srinagar is another example of bad planning and poor management. There was a delay of nearly 3 years when the hotel was partially commissioned in December, 1983 and it appears that the full commissioning of the hotel has been delayed due to low room occupancy. The delay meant huge escalation of cost. It is, therefore, no surprise that the cost of the project shot-up to Rs. 20.43 crores as against the original estimate of Rs. 10.99 crores. The delay of the project is partly attributed to delay in handing over the land earmarked for construction and delay in appointment of architects. Obviously, these factors are controllable with proper coordination and advance action. Another factor which led to the delay is inclement weather conditions during winter in Srinagar. The Committee wonder how this aspect was not taken into account when the project schedule was originally planned. The Committee are not convinced with the reasons advanced and expect HCI to improve its project planning, formulation and implementation taking note of its past failures.

5.7 Besides, the two projects dealt with in the foregoing paragraphs, there were three other projects which were under execution by HCI during the last five years. These are Centaur Hotel Delhi Airport and New Flight Kitchens at Bombay and Delhi. While it is gratifying to note that the Centaur Hotel Delhi Airport project was

completed at the time of ASIAD in 1982 without time and cost overrun, there was considerable delay and cost escalations in the two other projects *viz* New Flight Kitchens at Bombay and Delhi.

5.8 The Committee are disappointed to note that the performance of all the three projects commissioned by HCI during the last five years has been dismal. The Committee would like to be informed of the anticipations made in the Detailed Project Reports in each of the new units in regard to room occupancy (catering target in respect of flight kitchens) and profitability as compared to the actuals.

5.9 The Committee are disappointed to note that the Company which had been making profits during 1979—83 has gone into red since 1983-84. It incurred a heavy loss of Rs. 3.20 crores in 1983-84 and budgetted a loss of Rs. 3.90 crores in 1984-85. Although, it projected a profit of Rs. 1.87 crores in 1985-86, it was likely to end up with a loss of Rs. 1.25 crores during the first six months of the year. The Committee cannot but take a serious view of the deteriorating performance of the Company. There were heavy losses on all the three new projects viz. Centaur Hotel Delhi (loss of Rs. 4.44 crores during 1982-84) Centaur Lake View Hotel, Srinagar (loss of Rs. 1.08 crores in 1983-84) and New Flight Kitchen Delhi (loss of Rs. 0.35 crores during 1983-84). Regrettably, these projects budgetted only a loss in 1984-85 also. The poor performance of the new hotels is primarily on account of lower room occupancy and heavy burden of interest and depreciation. The Committee desire that suitable strategy should be evolved for vigorous marketing and stringent cost control in the various units of HCI to reverse the present adverse profile of the Company.

5.10 The Committee regret that the profit of Bombay Flight Kitchen—Chefair—has been affected to the extent of Rs. 5 lakhs annually owing to Air India transferring part of its catering upliftment to private caterers viz. Taj from April 1981. Air India decided to uplift part of its caterings from the private agency following disruption of catering arrangements due to labour trouble in Chefair. The Committee feel that whatever be the reasons that led to giving part of catering to Taj. Air India should promote a unit of its subsidiary to the maximum extent possible without of course, sacrificing the quality and competitive rates.

5.11 There was a press report alleging financial bungling and misuse of materials at Centaur Hotel, Delhi. The Committee have been informed that the matter was examined by the Management and

a report submitted to the administrative Ministry. One of the allegations relate to billing of HCI for Light Diesel Oil in excess of the quantity actually supplied. The Committee note that there being *prima-facie* evidence of culpability of the operating staff, the matter has been referred to CBI for detailed investigation. The Committee would like to be informed of the outcome of CBI enquiry in the matter and action thereon.

5.12 Another matter arising out of the press report which distresses the Committee more is the staff turn over in Centaur Hotel, Delhi which was approximately 20 per cent. The Committee observe that 164 employees resigned during the last three years and joined other hotels to improve their prospects having been trained at cost of the Centaur Hotel, Delhi. The Committtee view this phenomenon with considerable concern and dismay. The Committee desire that effective steps should be taken by the management to contain the exodus of personnel within limits in future. All those joining as trainees should be required to sign a bond that they would serve for a reasonable period with the Company after receiving the training. Adequate compensation should be claimed from those who violate this condition. The Committee would like to be informed of the action taken in this regard.

5.13 Industrial relations climate in HCI, particularly in Centaur Hotel Delhi leaves much to be desired. The employees of Centaur Hotel Delhi were on strike for about two weeks during May-June 1984 and resorted to go slow tactics for another two weeks etc. in July-August resulting in a loss of approximately 7500 mandays. The causes of the strikes are stated to be suspension of 3 office bearers of union for acts of indiscipline and delay in completion of the enquiry against these charge sheeted employees. The Committee understand that labour problem in the hotel is still continuing. The Committee support the company so far as enforcement of discipline is concerned but at the same time they would also urge that the management should maintain healthy industrial relations and sort out all problems through negotiations, redress grievances of the employees, if any and ensure full cooperation from them for smooth running of hotel.

NEW DELHI;
April 28, 1986
Vaisakha 8, 1908(*S*)

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

APPENDIX-I

(*Vide* paragraph 3.1 of the Report)

(OVERALL FINACIAL PERFORMANCE OF H.C.I.

(Rs. in lakhs)

	1979-80		1980-81		1981-82		1982-83		1983-84		1984-85
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Total Revenue . .	1115·61	1103·47	1165·75	1236·81	1289·51	1336·90	1730·63	1801·24	2216·52	2133·85	2453·93
Total Expenditure .	867·49	854·88	880·74	943·89	1023·62	1063·24	1482·58	1585·20	1893·71	1975·26	2157·35
Operating Profit before Depreciation and Interest . . .	248·12	248·59	285·01	292·92	265·89	273·66	248·05	216·04	222·81	158·59	296·58
Depreciation .	64·46	61·25	66·02	69·41	71·45	59·93	110·64	120·37	287·60	259·41	352·75
Interest . . .	16·00	14·66	2·12	4·81	2·17	16·67	64·93	60·06	229·83	219·39	333·12
Net Profit before Appropriation . . .	167·66	172·68	216·87	218·70	192·27	197·06	72·43	35·61	(294·62)	(320·21)	(389·29)

APPENDIX-II

(*Vide* paragraph 3.7 of the Report)

CENTUR HOTEL, BOMBAY AIRPORT

(Rs. in lakhs)

	1979-80		1980-81		1981-82		1982-83		1983-84		1984-85
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Total Revenue . .	595·45	587·33	651·15	673·11	766·37	770·51	985·69	993·35	1058·10	1058·65	1203·95
Total Expenditure .	387·45	376·07	445·53	455·13	550·98	551·30	791·89	815·38	832·88	832·30	886·75
Operating Profit . .	208·00	211·26	205·57	217·98	215·39	219·21	193·80	177·97	225·77	225·80	317·20
Depreciation .	57·00	51·46	56·03	58·43	60·20	48·36	47·00	46·10	46·05	44·61	45·00
Interest . . .	16·00	13·61	2·12	3·77	2·17	11·09	5·32	4·27	4·70	2·98	10·00
Note Profit before Appropriation .	135·00	146·19	147·42	155·78	153·02	159·76	141·48	127·60	175·02	178·21	262·20

APPENDIX-III

(*Vide* paragraph 3.19 of the Report)

PROFITABILITY OF CHEFAIR PLIGHT CATERING BOMBAY AND DELHI.

(Rs. in lakhs)

	1979-80 Actuals			1980-81 Actuals			1981-82 Actuals			1982-83 Actuals			1983-84 Actuals			1984-85 Actuals (Provisional)		
	BFK	DFK	TTL	BFK	DFK	TTL	BFK	DFK	TTL	BFK	DFK	TTL	BFK	DFK	TTL	BFK	DFK	TTL
Total Income . . .	260	256	516	279	256	535	222	314	536	263	398	661	285	419	704	329	386	715
Total Expenditure . .	244	236	480	215	248	463	202	287	489	241	363	604	284	454	738	329	429	758
Gross Operating Profit/ (Loss)	16	20	36	64	8	72	20	27	47	22	35	57	1	(35)	(34)	..	(43)	(43)

APPENDIX-IV

(*Vide* paragraph 3.30 of the Report)

FUTURE PLAN/FINANCIAL FORECAST OF HOTEL CORPORATION OF INDIA LIMITED DURING 7TH FIVE YFAR PLAN

(Rs. in lakhs)

	1985-86	1986-87	1987-88	1988-89	1989-90
NET PROFIT					
1. Existing Operations	267·67	311·80	349·34	401·29	460·49
2. Centaur Hotel Delhi/Airport	(45·75)	4·57	23·04	84·67	68·42
3. Centaur Lake View Hotel, Srinagar	(42·67)	(5·41)	55·71	103·26	168·04
4. Centaur Hotel Juhu Beach, Bombay	(109·43)	(57·57)	69·23	131·33	211·49
5. New Delhi Flight Kitchen	102·72	149·79	214·94	293·59	379·62
6. New Bombay Flight Kitchen	36·10	81·88	129·67	195·48	274·56
7. Centaur Hotel Annexe	58·54	66·66	81·70	106·11	120·14
8. 150 rooms Centaur Hotel in India, likely locations for such project being Trivandrum, Madras, Goa	..	..	(67·17)	(43·88)	(15·51)
9. 250 rooms Centaur Hotel at London	..	..	..	(656·08)	(596·94)
	267·18	551·72	859·46	615·77	1070·31
Less : Corporate Expenses	80·48	89·27	101·76	110·12	120·62
Net Profit after Corporate Exp.	186·70	462·45	757·70	505·65	949·69